

CLEAN WATER STATE REVOLVING FUND

Policy & Prioritization

WORKSHOP



July 13, 2017

**28 Years of Investment in CA Water
Infrastructure and Watershed Protection**

WORKSHOP OVERVIEW

❖ INTRODUCTION

- *History of CWSRF*
- *Why use CWSRF?*
- *Recent Financing, Current Demand, Cash Flow and Staff Resources*

❖ TODAY'S PROCESS

- *Current Application, Review Staging and Prioritization (Theory vs Reality)*

❖ TOMORROW'S PROCESS?

- *Guiding Principles*
- *Potential Prioritization Criteria*
- *Potential Application Process Changes*
- *Financial Sustainability*
- *Other?*

❖ CONCLUSION

- *Stakeholder Input Needed*
- *Next Steps & Deadlines*
- *Contact Information*

INTRODUCTION

INTRODUCTIONS

- ❖ *Division of Financial Assistance Staff*
- ❖ *Stakeholders*
- ❖ *Interactive Collaborative Process; ideas meant as conversation starters*

HISTORY OF CWSRF

- ❖ *Established in 1987 by the Clean Water Act*
- ❖ *Goal: Finance the protection and improvement of water quality*
- ❖ *Operating in all 50 states and Puerto Rico*
- ❖ *Total financing nationwide exceeds \$118 billion*

CALIFORNIA CWSRF

- ❖ *1st Loan in 1989*
- ❖ *More than \$10 billion in financing agreements executed*
- ❖ *778 total Projects financed since inception (as of May 22, 2017)*
- ❖ *Total Net Asset: \$3.9 billion*
- ❖ *Approximately \$220 M in annual repayments after debt service (FY 16-17)*

WHY USE CWSRF?

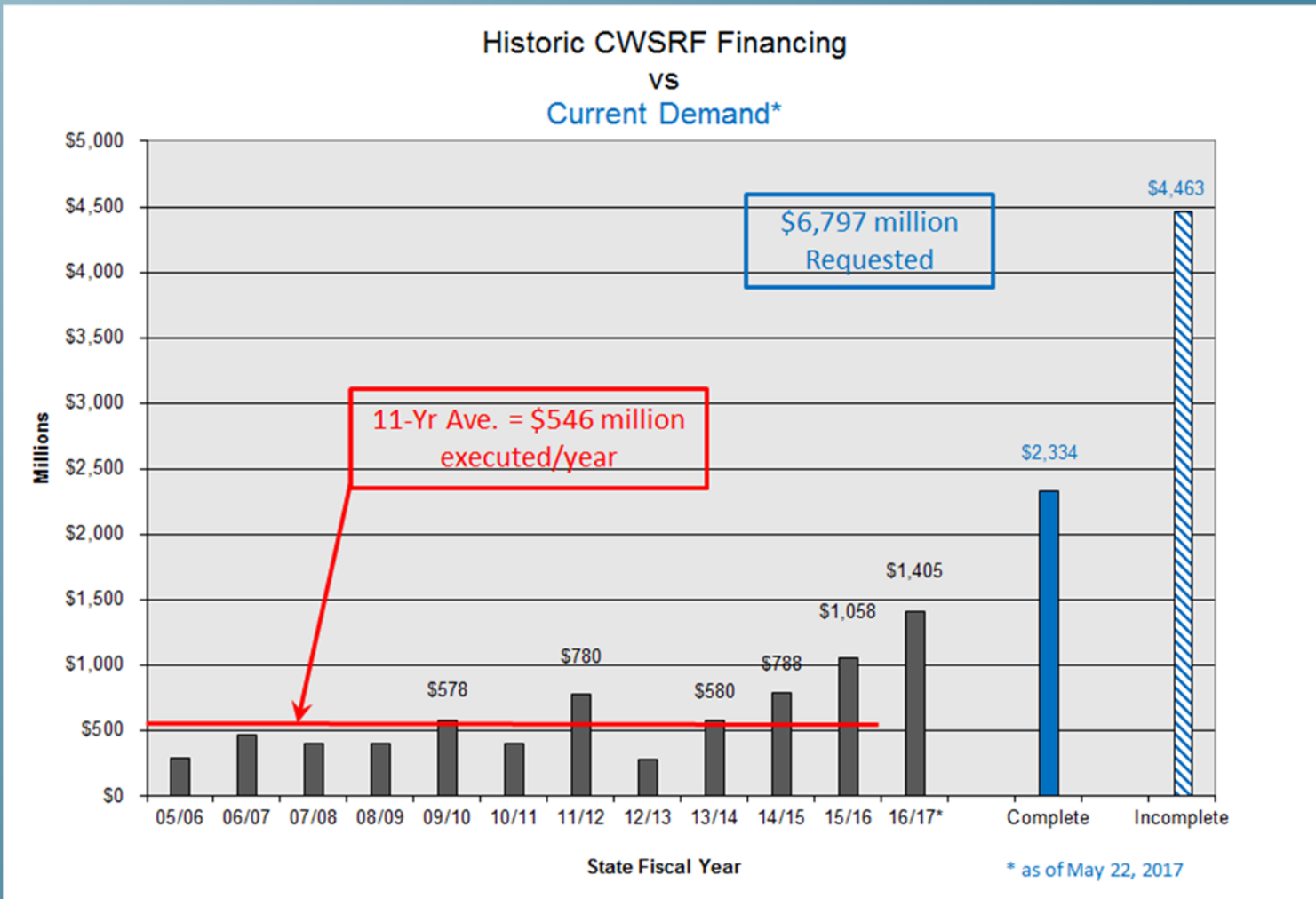
- ❖ *Below-Market Interest Rate*
- ❖ *30-Year Financing or Useful Life*
- ❖ *Principal (Loan) Forgiveness*
- ❖ *Wide Variety of Eligible Projects*
- ❖ *Wide Variety of Eligible Borrowers*
- ❖ *Compatibility with Other Funding Sources*
- ❖ **Financing Limits:** *No maximum; Depends on Program Cash Flow/Leveraging Authority and applicant's ability to repay*
- ❖ **Repayment:** *Begins 1 year after completion of construction*
 - *No payments during construction*



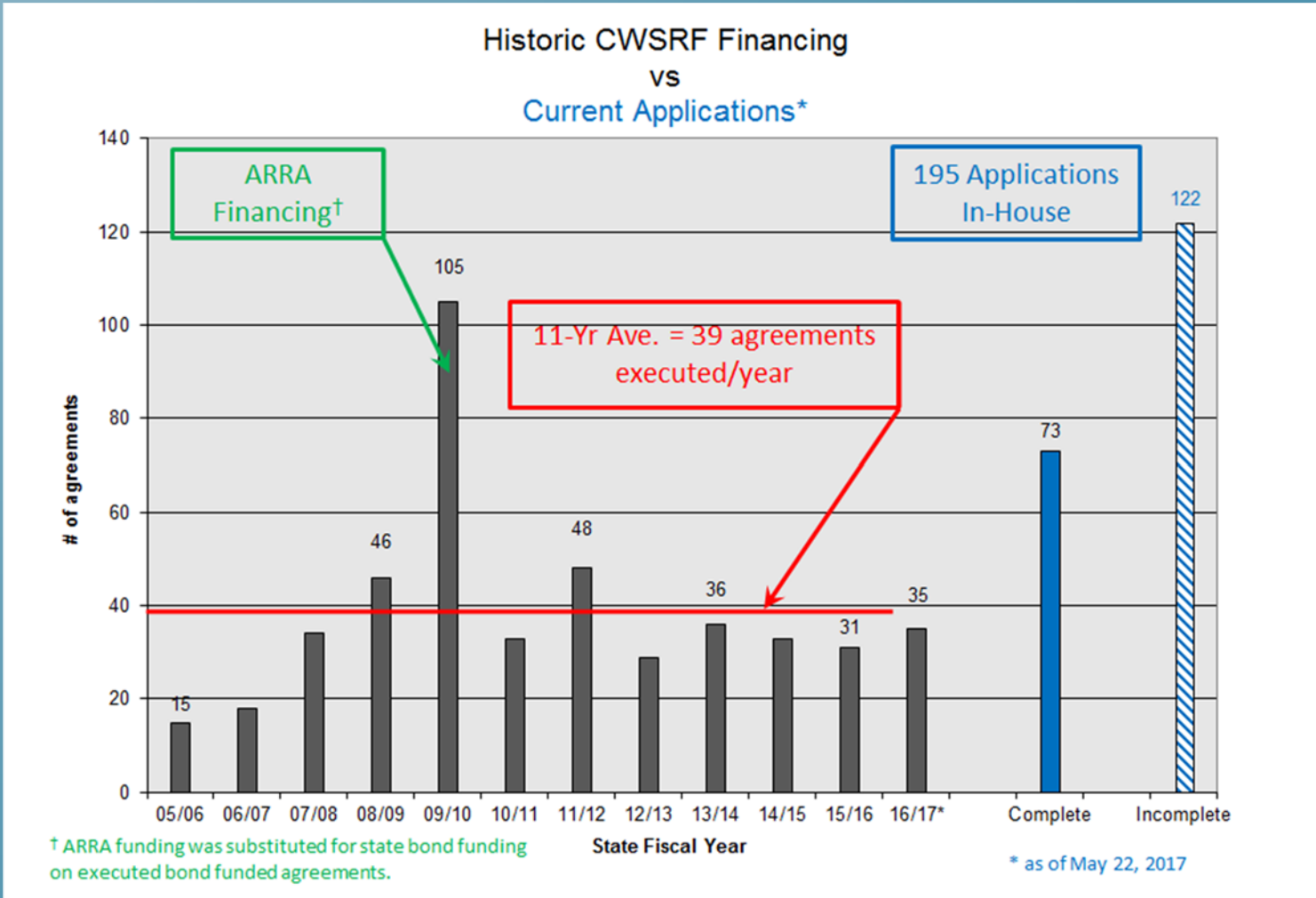
HISTORICALLY HIGH CASH BALANCES & DROUGHT

- ❖ **From 2005 to 2015, year-end cash balances ranged from \$200 M to \$380 M**
 - *Strategic Management Review - 2008*
 - *ARRA: 2009 - 2011*
 - *Furloughs*
- ❖ **Revamped application forms and process - 2012**
 - *4 complete packages approach*
 - *~~FPA, PFC, Agreement, Final P&S, ATA~~ → FBA*
- ❖ **Other Policy Changes – 2008, 2009, 2013, 2015**
- ❖ **30-year financing for all Projects**
 - *In stages – 2008, 2012, 2013*
- ❖ **March 2014 – Board approves 1% financing up to \$800 M for water recycling projects**
- ❖ **2015 Board commitment to finance Sac Regional Upgrade**
 - *\$1.58 B*
- ❖ **Lower interest rates**

PAST \$ AND CURRENT DEMAND



PAST # OF AGREEMENTS AND CURRENT DEMAND



DEMAND VS. CASH FLOW

- ❖ **3 Groups (Includes CWSRF & Prop 1 Only Projects)**
 - **Group 1**: All Reviews Complete and Agreement Mailed to Applicant
 - **4 applications / \$72.2 million**
 - **Group 2**: All Reviews Complete, Funding Decision in Process and Agreement Pending
 - **23 applications / \$786 million**
 - **Group 3**: Projects with Complete Applications and Reviews in Process
 - **81 applications / \$2,450 million**

- ❖ **Will use all \$1.2 billion approved in January 2016**
 - **Sold \$860 M in 2016 & 2017; remaining \$340 M likely in 2018**

- ❖ **Will need additional leverage to fully commit Prop 1 and Principal (Loan) Forgiveness**

Additional Leveraging Scenarios

	Description	Estimated New Bonds, M
A	Fund All Projects in Group 1	\$0
B	Fund All Projects in Group 1 and All 1% Water Recycling Incentive Projects	\$0 ¹
C	Fund All Projects in Groups 1 and 2	\$400
D	Fund All Projects in Groups 1 and 2 plus Commit All Prop. 1 Water Recycling and PF Funds	\$900
E	Fund All Projects in Groups 1 - 3	\$2,500

¹ Some additional leveraging may be necessary to fund this scenario depending on the timing of agreement executions, timing of disbursements, future capitalization grants, and market conditions for the 2018 bond sale.

- ❖ **Significant leveraging requires debt management for the CWSRF**

STAFF RESOURCES

❖ **Approximately 47.2 Personnel Years budgeted in SFY 2017-18**

- *Positions distributed among Division of Financial Assistance and the Office of Chief Counsel.*
- *Not 47 People Devoted Exclusively to CWSRF*
- *101 Positions for DW/CWSRF*

❖ **Additional indirect cost support (Division of Administrative Services)**

- *Accounting*
- *Business Services*
- *Human Resources*
- *Information Technology*
- *Contracts*
- *Executive Office*

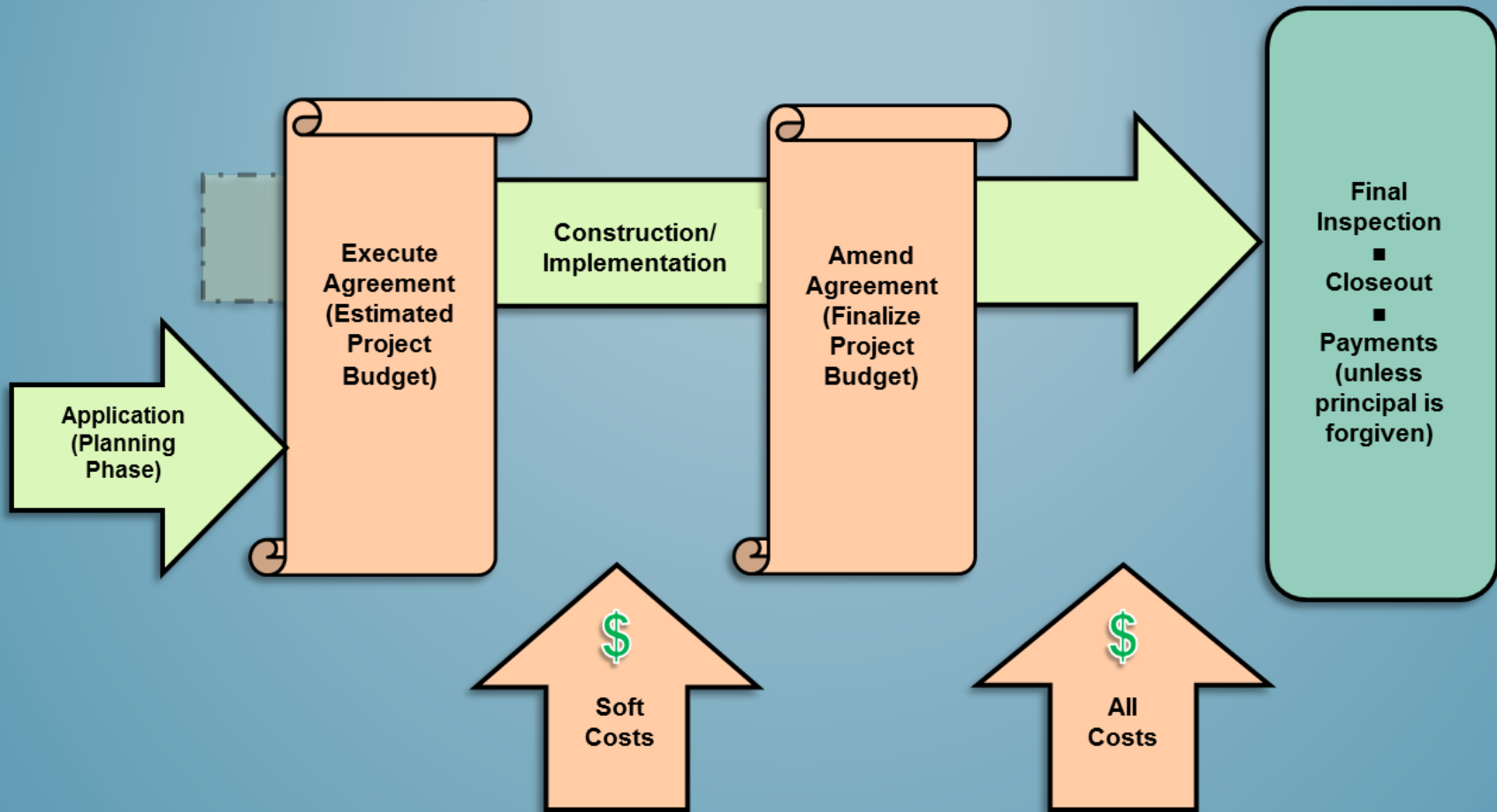
❖ **Contracted Services**

- *Bond/Tax Counsel*
- *Database Management*
- *Independent Auditor*
- *Technical Assistance for Disadvantaged Communities*
- *Financial Advisor*
- *Credit Analysis*



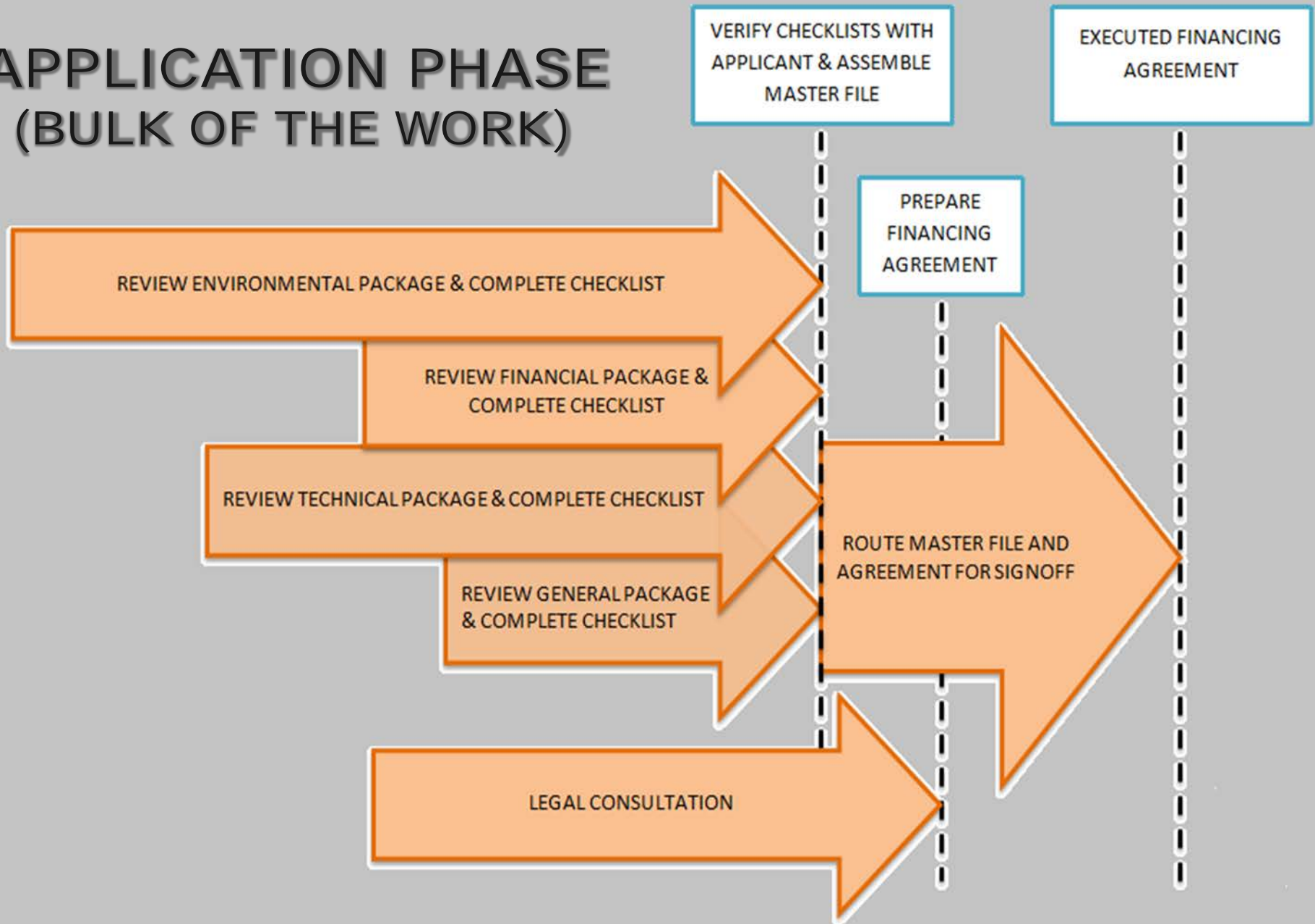
CURRENT APPLICATION PROCESS

(NOT TO SCALE)



CURRENT APPLICATION PROCESS

APPLICATION PHASE (BULK OF THE WORK)



CURRENT APPLICATION REVIEW STAGING AND AGREEMENT EXECUTION

- ❖ Processing 30-40 CWSRF + Prop 1 Funding applications simultaneously, in staggered order.
 - 2x: Same Process for DWSRF + Prop 1 Funding
- ❖ 193 agreements between CWSRF + DWSRF + Prop 1 since July 1, totaling \$2.0 B
- ❖ Plus Servicing Existing Agreements
 - Amending Terms
- ❖ Plus Program Issues



PRIORITIZING COMPLETE APPLICATIONS

THEORY

- ❖ *Priority Classifications*
- ❖ *Sustainability Points*
- ❖ *If insufficient funds, then:*
 - *DAC with lowest MHI*
 - *Sustainability/Climate Change*

REALITY

- ❖ *DACs - Prop 1*
- ❖ *Water Recycling - Prop 1*
- ❖ *Green - Principal (Loan) Forgiveness*
- ❖ *Legal Capacity*
 - *Environmental Review Completed*
 - *Technical Review Completed*



% OF APPLICATIONS FINANCED IN < 9 MOS

Annual Target	12/13	13/14	14/15	15/16	16/17 *
95%	34%	85%	73%	40%	29%

* As of 5/22/17

WHAT'S WRONG WITH EXISTING PROCESS?

❖ Not Bad / Not Excellent → Good

❖ Uncertainty & Timeliness

- Applicants unclear on probability and timing of funding
 - *Potential dropouts/discontinued/withdrawn applications*
 - *Loss of goodwill*
 - *Missed opportunity for other funding*

- Stale reviews
 - *Staff redoing reviews*

- Changing requirements
 - *EPA / State Legislature / Congress*

- Staff unclear on what to work on

- Reduces certainty of financial forecasts

WHAT'S NEEDED?

- ❖ *Effective Application Scoring System*
- ❖ *Yearly Funding Target*
- ❖ *Deadlines / Time Management*
- ❖ *Other Ideas?*

GUIDING PRINCIPLES

- ❖ *One Review Only*
- ❖ *Focus*
- ❖ *Predictable*
- ❖ *Timely*
- ❖ *Manage Financial Impacts*
 - *Leveraging*



DISCUSSION OF POTENTIAL SCORING CRITERIA

- ❖ Replace current system with new application scoring system
- ❖ Application Scoring System Survey
- ❖ Categories of potential criteria:
 - *Public Health*
 - *Water Quality/Enforcement/Permit Compliance*
 - *Affordability*
 - *Readiness*
 - *Construction*
 - *Financing*
 - *Other*
- ❖ DACs not subject to scoring



POTENTIAL APPLICATION PROCESS CHANGES

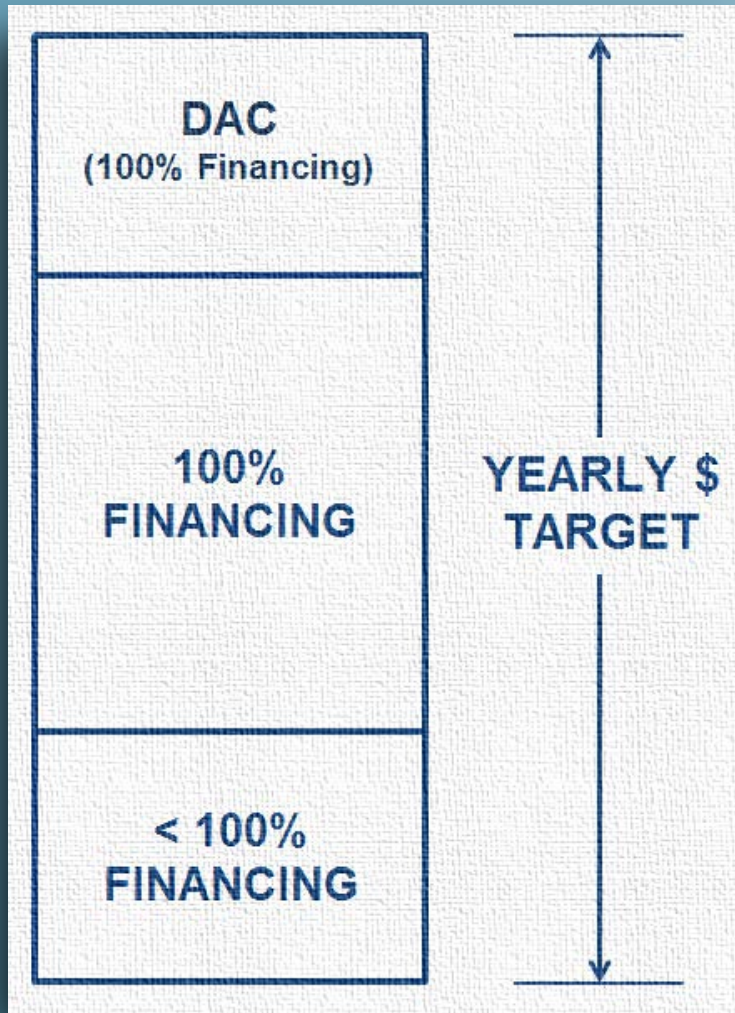
	SFY						SFY								
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	
Score Applications and Develop Draft Fundable List / IUP (Deadline for applications to be considered is January 1st)	█														
Public Comment for IUP			█												
Finalize Fundable List				█											
Board Adopts IUP and Submits Capitalization Grant Application					█										
Begin Eligibility Review of Non-DAC Applications (Fundable List Only)	█	█													
Deadline to Submit Complete Non-DAC Applications if Not Complete at Scoring Time (Fundable List Only)							█								
Complete Eligibility Review of Non-DAC Applications / Develop Agreements (Fundable List Only)				█											
Mail Non-DAC Agreements (Fundable List Only)						█	█								
Execute Non-DAC Loans (Fundable List Only)								█	█						
Deadline to Execute Non-DAC Loans (Fundable List Only)												█			
DAC Application Reviews / Issuing / Executing Agreements (Continuous)	█														
Project Inspections (Continuous)	█														
Evaluating Disbursement Claims (Continuous)	█														
Receiving and Triaging Applications (Continuous); Review Packages for Non-Fundable Applications as Time Permits	█														

DAC = Disadvantaged Communities

IUP = Intended Use Plan

FIT THE DEMAND TO THE FINANCIAL CAPACITY

YEARLY SUSTAINABLE FINANCING CAPACITY



YEARLY DEMAND

List of Scored Applications

	Project	Project No.	Score	Project Cost
1			100	\$
2			100	
3			99	
4			97	
5			97	
6			96	
7			93	
8			92	
9			90	
10			89	
11			89	
12			87	
13			85	
14			83	
15			82	
16			80	
17			80	
18			79	
19			78	
20			76	
21			75	
22			75	
23			74	
24			72	
25			71	
26			70	
27			69	
28			68	

Funding Line



Projects below the Funding Line will not be approved in the current year; potential in a future year.

KEY IMPLICATIONS

1. Overall process would largely stay the same: tweaking process
 - a. *Outcome will be significantly different*
2. Fundable list would only include applications submitted by the scoring deadline. → No walk-in applications during the year.
3. Not necessary to have a complete application to be scored, but complete applications should receive some preference.
4. Fundable List is not a guarantee of funding
 - a. *If application is not complete by 2nd deadline, applicant would have to wait for next year*

KEY IMPLICATIONS

5. Goal to make a decision by certain date
 - a. *If not funded in current year, application would roll over to next funding cycle.*
6. Many more “No’s”
7. Projects with lengthy environmental reviews will need to start consultations early to meet timeline.
 - a. Pre-score applications to determine priorities
8. Transition

DISCUSSION / COLLABORATION

- ❖ What do you think is needed to improve CWSRF performance?
- ❖ Small group discussions
- ❖ Reconvene entire group and wrap-up



WHAT IS IT WE WANT FROM STAKEHOLDERS?

- ❖ **Complete and submit Application Scoring System Survey.**

- ❖ **Feedback on the following (Questionnaire):**
 - *Should CWSRF establish a yearly financing (target) level and draw funding line accordingly?*
 - *Should CWSRF provide partial funding to projects?*
 - *How should agencies be defined for purposes of partial funding?*
 - *If we change our model, should CWSRF fund construction costs retroactively?*
 - *How should we determine eligibility for construction costs?*
 - *What should be the minimum threshold to score an application?*
 - *Other ideas*

NEXT STEPS...

- ❖ *Compile & analyze comments*
- ❖ *Debt Management Policy*
 - *Target Date: September 2017*
- ❖ *Policy Amendments*
 - *Target date: December 2017*
- ❖ *Use new prioritization criteria to select projects for inclusion in the 2018/19 IUP*

DEADLINES

- ❖ *All surveys and feedback due by 8/4/17*
- ❖ *Send to Cheng Vue at cheng.vue@waterboards.ca.gov*



CLEAN WATER SRF CONTACT INFORMATION

Mailing Address:

State Water Resources Control Board
Division of Financial Assistance
P.O. Box 944212
Sacramento, CA 94244-2120

Street Address:

1001 I Street
Sacramento, CA 95814

E-mail: CleanWaterSRF@waterboards.ca.gov

Telephone: (916) 327-9978

FAX: (916) 341-5296

Staff Contact List:

http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/cwsrf_contacts.pdf



THANK YOU



CALIFORNIA

Water Boards

STATE WATER RESOURCES CONTROL BOARD
REGIONAL WATER QUALITY CONTROL BOARDS